



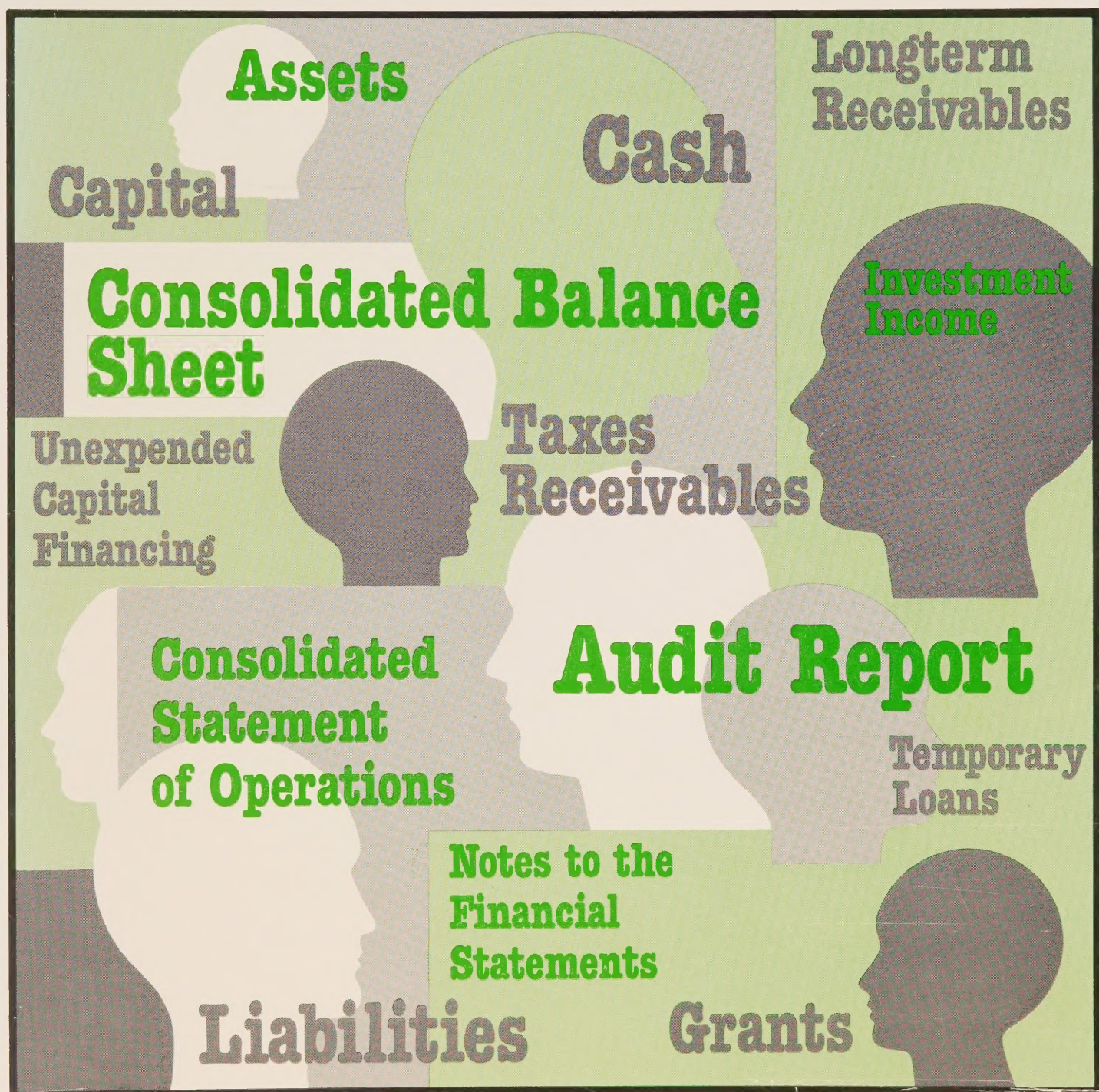
Ministry of  
Municipal Affairs

Bernard Grandmaitre  
Minister

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# Understanding Your Financial Statements



June 1987

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# Understanding Your Financial Statements



Ministry of  
Municipal  
Affairs

Honourable  
Bernard Grandmaître  
Minister

Eric M. Fleming  
Deputy Minister  
(Acting)

**June 1987**

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## UNDERSTANDING YOUR FINANCIAL STATEMENTS

### INTRODUCTION

This publication is written for the infrequent or novice local government financial statement user. It is designed to familiarize the reader with municipal financial statements as they are presently prepared. The financial statement package consists of a minimum of the following:

- |  |   |                           |
|--|---|---------------------------|
| . Auditor's Report                     | } | responsibility of auditor |
| . Consolidated Balance Sheet           | } | responsibility            |
| . Consolidated Statement of Operations | } | of                        |
| . Notes to the Financial Statements    | } | Treasurer                 |

The bulletin addresses the annual financial statements to the inhabitants and ratepayers as required by the Ministry of Municipal Affairs. The Ministry also requires an annual Financial Information Return and numerous other reports including estimates and taxes levied. These other management information summaries will not be discussed herein.

Only the understanding of the contents of the financial statements, not how to apply or interpret the figures, will be addressed. There will be a subsequent publication which will inform the reader as to the use of these figures in measuring the financial health of the municipality.

All Ontario municipalities are required to follow the accounting principles for Ontario municipalities prescribed by the Ministry in the Municipal Financial Reporting Handbook so as to ensure consistency, completeness and fairness of presentation in financial reporting. Consistency is desirable to allow users to compare the municipality's financial position and performance from year to year, as well as to provide a basis for comparing

performances among municipalities. It must be stressed that when such a comparison is made the individual circumstances and characteristics of each municipality must be considered. The reader should also be aware that due to government having objectives which differ from business enterprises and due to their unique economic, legal, political and social environments, their accounting and financial reporting differs from the commercial sector.

### **ROLE OF THE MINISTRY OF MUNICIPAL AFFAIRS**

Section 3 of the Municipal Affairs Act gives the Ministry of Municipal Affairs the responsibility to control and prescribe the municipal accounting and financial reporting systems and municipal auditing in order to monitor the financial health of the municipalities. To assist the Ministry in carrying out its responsibilities, one of the reports it requires is an annual audited consolidated Financial Report (FR) with specified accompanying notes. These notes are an integral part of the financial statements. The requirement for audited financial statements arises from the need to demonstrate the accountability of government officials' use of public resources to its inhabitants and ratepayers.

Section 85(1) of the Municipal Act requires each municipality to report to its ratepayers annually by either publishing or mailing a copy of their financial report or a summary thereof. The Financial Report, however, is also available in its entirety at the municipality's office for anyone wishing to examine it.

### **PURPOSE OF FINANCIAL STATEMENTS**

#### **Definition**

The financial statements of a municipality are a report by the

Council to the inhabitants and ratepayers which shows in quantitative terms:

- (a) the accounting for the taxes raised, grants and other revenues received and how these have been utilized during the fiscal year (Consolidated Statement of Operations); and
- (b) the financial position at the end of the fiscal year.  
(Consolidated Balance Sheet)

### **Users**

As well as those to whom the report is addressed, there are other users of these financial statements, the primary ones being lending institutions, debenture-holders, investment dealers and the Ministry of Municipal Affairs. Secondary users would include other government agencies, developers, and employee associations and pension fund groups.

The Council should use the financial statements to help it evaluate the state of the municipality's finances. Ratepayers will be interested in the financial statements to provide some indication of how well Council has managed the affairs of the municipality, whereas investors in municipal debentures will be interested in the security of their investments and lenders will be interested in the security of their loans. The Ministry of Municipal Affairs also has a vital interest in the affairs of the municipality since a significant portion of provincial funds is transferred to the municipality in the form of grants. Secondary users such as other government agencies, will use the financial statements for statistical purposes as well as economic planning. Developers will be interested in the financial health of the municipality in order to assess future areas of growth and building sites. Employee unions may monitor the financial condition of the municipality to protect the financial security of the employees.

## LIMITATIONS OF FINANCIAL STATEMENTS

For those persons who will be using the financial statements an understanding of the limitations of financial statements is important. Also, the end use of the financial information provided must be considered in order to determine what additional information might be required for further analysis.

The financial statements present fairly what has actually occurred, not necessarily what should have happened. They do not, and cannot be reasonably expected to anticipate all user needs nor can they comment on the effectiveness, efficiency or economy of management. Such evaluations are a focus for management reviews and will not be discussed.

Financial statements are subject to estimates and judgments. Because they are expressed in quantitative terms, there is a tendency among users to attribute accuracy to them as opposed to reasonable estimates. Another important consideration is timeliness. Financial information must be received in time to be of benefit to the users.

The fact that financial statements are not precise, however, does not negate their usefulness.

## RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

### **Preparation**

Although it is a requirement for all Financial Reports to be audited, it is the responsibility of the management and the treasurer, to ensure their preparation. The Council may in some cases engage the auditor to prepare the financial statements as well as audit them, however, the financial statements are the management's overall responsibility whether or not they are prepared by the auditor. The Ministry has presently underway a

separate publication on the role and responsibilities of the auditor, which provides a comprehensive overview of the auditor in a municipal context.

### **Timing**

The financial report for the year ended December 31 must be filed with the Ministry of Municipal Affairs by April 30 of the following year, however the financial statements should be completed and issued as soon as possible after the end of the accounting period.

### **FUNDAMENTAL ACCOUNTING CONCEPTS**

The information included in the financial statements is prepared on the basis of certain fundamental accounting concepts and in accordance with generally accepted accounting principles and methods of applying these principles to achieve a fair presentation of the financial position and results of operations of the municipality. The accounting principles are those prescribed by the Ministry's Municipal Financial Reporting Handbook and where this Handbook is silent, by The Canadian Institute of Chartered Accountants' Handbook. A detailed knowledge of the accounting principles used is not required in order to understand financial statements, however a summary of the major accounting policies is shown in the Notes to the Financial Statements. A general understanding of the following concepts is also useful:

- "financial viability" refers to the municipality's ability to continue functioning. Measuring financial viability involves determining the municipality's ability to meet its financial obligations and to continue providing the services for which it exists.

- **"accrual"** is the concept of showing expenses as the municipality is liable for them, or in the case of revenues as the municipality is entitled to them rather than when the actual cash is paid or received. To determine the actual or real surplus or deficit for the period, you need to "accrue" or take account of revenues or expenditures not yet received or paid in cash.

- **"consistency"** means that the accounting principles are applied on the same basis from year to year, so that the information can be compared to establish trends and highlight problems.

### **Fund Accounting**

Municipalities operate under a "fund accounting" system but prepare their financial statements on a consolidated basis. This consolidated basis eliminates interfund transactions so that they are only counted once. Within the municipality, in general, there are four accounting units set up, i.e. funds. These operate somewhat like separate divisions, in that they may loan funds or transfer funds to each other within the limitations set out in the Municipal Act. Although these limitations restrict the flexibility of management in conducting the operations of the municipality and give rise to the need for fund accounting they are safeguards to ensure the appropriate use of the funds. A fund is therefore defined as an entity with a separate set of accounting records segregated for the purpose of carrying on a specific activity.

The funds referred to are:

- Revenue fund** - used for day-to-day operating expenditures and revenues. Within this fund are reserves which are an allocation of accumulated net revenue. They have no reference to any specific asset

and do not require the physical segregation of money or assets as in the case of a reserve fund.

**Capital fund** - used for capital or long term expenditures such as equipment, buildings, roads etc. Where capital items are purchased and have not been provided for in this fund, there will be shown a transfer from the revenue fund to the capital fund. The capital fund will thereby show a receipt from the revenue fund and corresponding expenditure from the capital fund. This removes capital items from the revenue fund to enable comparisons of ongoing operating expenditures from year to year since capital expenditures by their very nature occur sporadically. (Any apparent double-counting of capital expenditures is eliminated upon consolidation.)

**Reserve funds** - used for specific designated purposes. A reserve fund differs from a reserve in that reserve fund assets are segregated and restricted to meet the purpose of the reserve fund.

**Trust funds** - used to segregate and administer assets under the specific terms of a statute or trust indenture. A trust fund arrangement exists where money, property (or other valuables) are held by a municipality or local board for the benefit of another entity, such as Ontario Home Renewal Plan moneys. They are not available for general municipal use.

## **THE FINANCIAL REPORT**

For some municipalities, an annual report similar to that of private enterprises, may also be prepared. It may contain additional schedules, charts and descriptions which management

feels would contribute to the understanding of the financial statements of the municipality by the diversified user base. The Financial Report will also contain the specified financial statements and the accompanying notes of the municipality.

#### AUDITOR'S REPORT

Under the minimum disclosure requirements in the Ministry of Municipal Affairs' publication "Financial Disclosure to the Public" it is not necessary for a municipality to publish the Auditor's Report. This report gives the auditor's opinion as to whether the financial statements prepared by the treasurer present fairly the financial position and results of operations of the municipality for the year ended December 31 on a basis consistent with that of the previous year. The auditor does not comment on the financial health of the municipality only whether the financial statements represent what has actually taken place. The auditor's report, however, is available at the municipal offices along with the financial statements in their entirety.

Appendix A on page 56 is a standard auditor's report. The auditor examines the financial statements of the municipality for the purpose of giving an opinion. The auditor will use generally accepted auditing procedures prescribed by The Canadian Institute of Chartered Accountants. Should the auditor disagree with the presentation in the financial statements, the auditor's report would show a qualification such as "these financial statements do not present fairly" or "subject to .....", or "except for....." and will explain the reason for the qualification. It is extremely rare not to see an unqualified opinion, since if the auditor disagrees with an estimate or an evaluation usually management will correct the financial statements so that the auditor can give them an unqualified or "clean" opinion.

NOTES TO THE FINANCIAL STATEMENTS

General Comment

The Notes to the Financial Statements are an integral part of the financial statements and provide explanations of the accounting policies used, and certain other explanations which are considered to be important for a proper understanding of the figures presented in the financial statements. The Notes therefore should be read in conjunction with the rest of the report. In many cases there will be note references immediately beside the relevant items on the financial statements, for example;

Investments (note 5)	\$100,000
----------------------	-----------

This reference directs the reader to specific information in the notes to the financial statements pertaining to the item so referenced. The Municipal Financial Reporting Handbook and its supporting Interpretation Bulletin recommend specific note reference wherever applicable.

Notes will also explain situations which are relevant to the understanding of the total financial picture of the municipality. For example, the municipality may participate in the operations of a joint local board with one or more other municipalities. If this board is running a deficit, the municipality will be liable for its share. The amount of the deficit should be disclosed in a note to the financial statements.

A brief description of the various notes and what they mean starts on page 35 on the left-hand side, with the suggested wording of the Ministry's prescribed notes on the right-hand side.

## CONSOLIDATED BALANCE SHEET

Turn to page 20 and unfold the exhibit for reference to the explanations following.

### GENERAL

The Consolidated Balance Sheet is a picture of the municipality's financial position at a particular point in time. A balance sheet is exactly what the name implies. It is a statement of the assets of the municipality which come to a certain total balanced off by the liabilities and equity. In other words, the equation is as follows:

$$\text{ASSETS} = \text{LIABILITIES} + \text{FUND BALANCES or EQUITY}$$

The equity figure is arrived at by turning the equation into a different format i.e.

$$\text{ASSETS} - \text{LIABILITIES} = \text{FUND BALANCES or EQUITY}$$

This is also a logical place to discuss the use of brackets in financial statements. In general terms, brackets are used to denote the opposite to the norm (and thereby a deduction) in any particular section. For example, on the Balance Sheet the norm in the Fund Balance section is to have a surplus. A deficit would thus be enclosed in brackets and would reduce the overall fund balances available to the municipality. (See reference number 30)

The exhibit of a typical balance sheet will be discussed item by item. It has been presented in a fold-out format to facilitate making reference to each item as it is explained.

## SPECIFIC ITEM EXPLANATIONS

For the following explanations the exhibit sheet has reference numbers down the left-hand side of the page. These numbers are not on the actual financial statements of municipalities but are to facilitate making reference to the individual item explanations.

### GENERAL

#### Reference Number

**1 "Consolidated Balance Sheet"**

refers to the fact that all of the municipal entities which are under the control of Council are added together to show a consolidated position. The determination of consolidation versus non-consolidation for local boards and municipal enterprises is guided by the political accountability of Council, that is, whether it is responsible for the day to day operations of the entity. The Consolidated Balance Sheet also reflects a consolidation of the various funds used in the accounting systems of the municipality. Those entities which are consolidated are disclosed in the Notes to the Financial Statements under "Accounting Policies-Basis of Consolidation" (usually the first note).

**2 "As at"**

is a specific notation that the balance sheet presents the municipality's financial position at a point in time, as if a snapshot had been taken. December 31 is the legislated year-end for all Ontario municipalities. All items incurred up to that point in time have been accrued.

**3 "1986 1985"**

All municipal financial statements show the figures for two years for comparison purposes. This is useful for highlighting

significant increases or decreases in individual items from year to year. New or one-time expenditures are also more obvious when there are comparative years.

## ASSETS

### 4,13 "Unrestricted" and "Restricted"

Assets on the Consolidated Balance Sheet for a municipality are broken down into "Unrestricted" and "Restricted" to separate those amounts which are available for general municipal purposes from those amounts which belong to certain funds and are restricted to a specific designated use.

Any interest income earned by the assets in the specific or restricted funds may not be used for general municipal purposes.

### 5,14 "Cash"

includes amounts of cash or cash equivalents held on deposit at the banks and small amounts of cash kept on hand by the municipality.

### 6,15 "Investments"

are the amounts which have been invested in term deposits, for example, by the municipality until such time as the funds are required. The market value of the investments should be shown in a Note to the Financial Statements or alternatively in brackets beside the description "Investments" on the balance sheet.

### 7 "Taxes receivable"

are any amounts included on the tax bills and the interest and penalties thereon, which have been billed or accrued for current and prior years but still remain unpaid. The amount shown on this line will be net of any allowance set up for uncollectible taxes. For example, where a business has gone bankrupt and it is

doubtful that any money will be left to pay a portion or all of the tax bill, then an allowance will be set up until such time as it is finally determined whether any money will be coming to the municipality. At such time the uncollectible portion will be written off.

**8 "User charges receivable"**

refers to unpaid sewer and water charges, recreational fees and any other such charges which are user oriented.

**9 "Accounts receivable"**

contains grants due for the current year but not yet received, and any other items of revenue receivable which are not taxes or user charges.

**10 "Other current assets"**

include prepaid items such as unexpired insurance, deposits or inventories of goods or supplies and amounts held by the Ministry of the Environment for sewer and water repairs, renewals, and contingencies. Unexpired insurance results from a timing difference, which is a difference between the actual cash outflow and the time period to which the outflow is applicable. For example, prepaid insurance arises where a six-month policy is paid in full on December 1. For the purposes of the December 31 financial statements, only one month can be said to be an expense therefore five months would be set up in "other current assets" as prepaid insurance. This amount would be expensed in the following year. Other common items in this account would be the cost of inventories of supplies such as road salt which had not been used up by the end of the year.

**11,18 "Long-term receivables"**

are those amounts receivable which are due longer than one year hence.

19        **"Investment in own debentures"**

refers to the situation where the restricted funds have purchased municipal debentures which have been issued to finance general municipal capital expenditures. In other words, because municipalities operate under the fund accounting system, the reserve fund is shown as investing in the capital funds of the municipality.

21,28    **"Capital outlay financed by long term liabilities and to be recovered in future years" and "Net long term liabilities"**

represents the amount shown in current and previous years expenditures which still must be raised in future years to repay the long term debt. The amount that has to be levied in any one year in respect of major capital expenditure would be only the amount of the debenture payment and interest for that year. The lack of fixed asset reporting is further explained in one of the notes to the financial statements.

Municipalities, because their revenues are determined by their expenditures (need determines revenues), charge capital items against revenues received. Where there is a major capital outlay which would result in too onerous a tax burden in any one year, they will finance the capital expenditure through the issue of long term liabilities such as debentures or long term bank loans.

23        **LIABILITIES**

24        **"Temporary loans"**

include short term borrowing pending receipt of revenues, temporary financing for capital purposes, and bank overdrafts.

25        **"Accounts payable and accrued liabilities"**

refers to those amounts set up in the municipality's records for which they are liable but have not yet paid. These would be for

services rendered or goods received up to and including December 31.

26      **"Other current liabilities"**

refers to any commuted special charges, school board and region or county overlevies and other deferred and restricted revenues.

28      **"Net long term liabilities"**

refers to the long term debt which has been described above under point 21.

**FUND BALANCES (OR SURPLUS OR EQUITY)**

**Description**

29      **"Fund Balances at the end of the year"**

is commonly referred to as the "Surplus" or "Equity" section. The total of the fund balances shows the net amounts which have been accumulated by the municipality. This total is further broken down as follows:

30      **"To be used to offset taxation or user charges in 1987"**

is the amount of surplus from the current year which is available to reduce the taxation or user charges in the next fiscal year.

**Taxation** refers to all revenues from the imposition of taxation including those levied by a mill rate on assessment, local improvements, special charges, payments in lieu of taxes, and telephone and telegraph taxation.

**User charges** refers to those municipal enterprises which directly charge the user for the amount that the individual has used, whether it be goods or services such as sewer and water, transit, licences

and permits, rents, concessions and franchises, the sale of goods and services to other governments, school boards and other municipalities, and other direct charges.

A figure on this same line which is shown in brackets and described instead as "to be recovered from taxation or user charges" indicates a deficit which will have to be raised in the following year. Where there is a surplus in one year and a deficit in the other, both explanations will be provided in the description, but the deficit dollar figure will be enclosed in brackets as will the description relating to the deficit.

Surplus or deficit amounts arise primarily from the obvious inability to predict future events. A budget, which is Council's best estimate of revenues and expenditures, is determined early in the year. From this estimate the mill rates are determined for the amounts to be raised through taxation. At the end of the year any actual overage, of revenues received from all sources over expenditures, is reflected as a surplus and any shortfall is reflected as a deficit.

31      **"Unexpended capital financing"**

is a net figure referring to projects where the financing received is greater than incurred costs or where financing has not to date been assigned to a project. Capital refers to expenditures which have a long-term benefit, such as a building, equipment, roads, sewers etc. The net amount is shown separately because it is committed to specific capital projects and is not available for general use or reduction of taxation or user charges.

A figure in brackets denotes the opposite. "Capital operations not yet permanently financed" refers to funds which have already been spent on capital items for which permanent financing has not

yet been received. These funds would have been temporarily borrowed from the bank or other funds of the municipality.

32        **"Reserves"**

Many expenditures, such as salaries, must be paid out more or less evenly throughout the year. They cannot wait until revenues such as taxation, which are billed periodically during the year, are received in cash. It is necessary therefore, that a reasonable amount of moneys be provided through the budget for a reserve for working capital purposes. If this were not done, the municipality would have to borrow and therefore incur additional interest costs or reduce any interest income advantage. Other examples are reserves for contingencies, such as damage claims, and reserves for equipment replacement to avoid the need to levy for the full cost of the equipment in the year of acquisition.

These reserves are useful mechanisms for minimizing short term borrowings, large fluctuations in tax levies from year to year and the issuance of long-term debt with its attendant interest costs. Reserves are created at the discretion of Council and form part of the revenue fund. Since they are only an allocation of net revenue no actual moneys need be set aside in a separate account.

33        **"Reserve funds"**

are similar to reserves, however reserve fund assets are segregated and restricted to meet the specified purpose of the reserve fund. There are two types of reserve funds - obligatory and discretionary.

**Obligatory** reserve funds must be created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. Some examples of these are, moneys received from special charges to provide

additional sewer or water supply (section 215(3) of the Municipal Act), revenue in lieu of land for park purposes (section 50(12) of the Planning Act), and currency exchange premiums received on debentures expressed in a foreign currency (section 148(3) of the Municipal Act).

**Discretionary** reserve funds are established whenever funds are earmarked by Council for a specific purpose and it is desirable to have the moneys available as required. Examples of discretionary reserve funds are vehicle self-insurance, new buildings, land acquisitions etc.

This page has been left blank for any additional notes you might wish to make as you refer to the explanations.

Exhibit of.....TOWNSHIP OF ONTARIO  
 1 CONSOLIDATED BALANCE SHEET  
 2 As at December 31, 1986  
 3

	1986	1985
	\$	\$
<b>ASSETS</b>		
4 Unrestricted		
5 Cash	12,081	70,709
6 Investments (note 5)	500	--
7 Taxes receivable	329,356	274,300
8 User charges receivable	2,500	5,109
9 Accounts receivable	382,534	115,772
10 Other current assets	15,843	8,408
11 Long term receivables	<u>1,000</u>	<u>--</u>
	<u>743,814</u>	<u>474,298</u>
13 Restricted		
14 Cash	29,475	10,475
15 Investments (note 5)	200,000	219,000
16 Accounts receivable	4,000	3,000
17 Other current assets	1,000	2,000
18 Long term receivables	500	500
19 Investment in own debentures	<u>20,000</u>	<u>20,000</u>
20	<u>254,975</u>	<u>254,975</u>
Capital outlay financed by long term liabilities and to be recovered in future years (note 1(b))	<u>94,604</u>	<u>116,630</u>
	<u>1,093,393</u>	<u>845,903</u>
<b>LIABILITIES</b>		
24 Temporary loans	466,975	255,137
25 Accounts payable and accrued liabilities	162,877	172,498
26 Other current liabilities	<u>27,093</u>	<u>16,612</u>
27	<u>656,945</u>	<u>444,247</u>
28 Net long term liabilities (note 8)	94,604	116,630
<b>FUND BALANCES AT THE END OF THE YEAR</b>		
30 To be used to offset (or to be recovered from) taxation or user charges in 1987 (note 9)	5,317	(3,162)
31 Unexpended capital financing (or capital operations not yet permanently financed) (note 9)	20,839	--
32 Reserves (note 10)	60,713	33,213
33 Reserve funds (note 10)	<u>254,975</u>	<u>254,975</u>
34	<u>1,093,393</u>	<u>845,903</u>

The accompanying notes are an integral part of this financial statement.

## CONSOLIDATED STATEMENT OF OPERATIONS

Turn to pages 28 and 33 and unfold the exhibits.

### GENERAL

The Consolidated Statement of Operations is a yearly summary of the sources of financing and the purpose to which these moneys were applied and thus the statement will show "for the year ended". Many municipal statements of operations will also show the budget for the current year. This gives the reader some idea of what the municipality expected the revenues and expenditures to be and thereby may give some clues as to the cause of any surplus or deficit.

In this bulletin we will only address the recommended format, although there are still some statements of operations which show the sources and applications of funds by fund e.g. capital fund, revenue fund, reserves, or reserve funds. This disclosure is being discouraged for general municipal financial reporting. It is generally felt that this disclosure is overly complex and diminishes the understanding of the municipality's operations for the year.

As was the case for the Consolidated Balance Sheet, specific items will be discussed using the Reference Numbers assigned at the outside borders of the exhibit Consolidated Statement of Operations. Also to facilitate making reference, the Consolidated Statement of Operations will be explained in two sections:

Sources of Financing (Exhibit on page 28)

Applications of Financing (Exhibit on page 33)

THESE TWO PAGES ARE IN REALITY ONE FINANCIAL STATEMENT AND THEY WILL NORMALLY BE SHOWN TOGETHER SIDE BY SIDE.

Entities consolidated in the Consolidated Balance Sheet are also included in the Consolidated Statement of Operations.

CONSOLIDATED STATEMENT OF OPERATIONS  
SPECIFIC ITEM EXPLANATIONS

Sources of Financing

50-54 "Taxation and user charges"

categorizes those sources of financing which are directly levied for, based upon assessment or frontage, or user charges which relate to the amount actually used of the utilities or services.

Taxation is a direct result of the budgeting procedure in which the council of the municipality estimates the funds which are required for general municipal purposes after taking into consideration any expected grants and other revenues. Taxation is based upon the assessed value of a property times the mill rate; the mill rate is a function of the dollar amount required times one thousand divided by the total taxable assessment.

51-53 show how much of the total taxation is borne by each of the following categories of taxpayers:

Residential and farm

Commercial, industrial and business

Other governments such as the Post Office, Hospitals,  
Jails etc.

54 "User charges"

refers to the amounts charged to users for various services such as water provided by a utility operated by a committee of Council. Hydro and any other commission-operated utility will be shown on separate statements.

55-58 "Grants"

are those amounts contributed to the operations of the municipality by other governments by way of specific purpose grants or general transfer payments.

"Government of Canada" grants tend to be specific purpose grants which are considered to be of benefit to the country in general, such as employment incentives. They are not therefore necessarily available on a consistent basis from year to year.

"Province of Ontario" grants generally include a number of specific transfer payments which have a reasonable degree of predictability in amount. They can, therefore, be included in the budget process. Other special grants may or may not be known in advance.

"Other municipalities" refers to contributions received from other municipalities towards the capital cost of a project or a voluntary donation towards the operating costs of a facility or service.

59-63 "Other"

refers to those miscellaneous types of revenue, usually of a less significant source of financing than taxation and grants.

"Contributions from developers" represent the recovery of costs assessed to developers of new subdivisions for extension of municipal services such as sidewalks, sewer, water, street lighting etc. required within the subdivision or surrounding area.

"Investment income" is income earned from any investments held for general municipal purposes or in reserve funds. Where the cash flow is such that the municipality has excess cash on

hand because of timing differences in the flow of revenues and expenditures then these funds will be appropriately invested until such time as the funds are required. Unapplied capital receipts will also generate investment income.

"Sale of land" is revenue received from sales of land not required for future municipal purposes.

"Other" sources of financing takes in any sundry minor income amounts such as donations.

64 "Amounts received or receivable for the County and school boards"  
(Could also be Region instead of County)

Municipalities levy on behalf of the county and school boards.

This can be reported in two ways:

Gross Where municipalities follow the "gross" method of reporting, the taxation amount from these other bodies will be included in the "taxation" section of the municipality (51 -53) with a corresponding amount shown on line 64 as a deduction since these moneys are turned over in their entirety to the County and school boards for purposes for which Council is not responsible.

Net Where municipalities follow the "net" method of reporting, taxation revenues will be shown at an amount net of County and school boards therefore there will be no figure shown on line 64.

Because the amounts levied may be different than the amounts paid over due to changes in assessments, at the end of the year there may be overlevies which will be reflected on the Consolidated

Balance Sheet in "other current liabilities" or under levies which will be included in "other current assets."

65      **"Proceeds from the issue of long term liabilities"**

refers to amounts received from a debenture issue or other forms of long term debt. Long term financing results from the need to finance major capital projects over a reasonable time period to spread out the cost. The funds received from the long term financing must be applied to the costs of the related capital item. (shown under page 33--"Capital" Ref. #82--#85). In subsequent years, only the principal and interest payments on the long term debt will be required to be levied and will be shown as an expenditure under "current operations". This effectively spreads the tax burden for a major item over the term of the long term debt instrument.

Since the proceeds from the issue of long term liabilities are offset by the capital expenditure, the only charges against taxation are the annual principal and interest payments.

66      **"Extraordinary gains"**

rarely occur in a municipal context, but they are kept separate in the financial statements because they reflect circumstances which are not a part of the normal municipal operations so as to not distort comparisons. Examples of extraordinary gains are sales of municipal offices and settlements from lawsuits.

67      **"Net appropriations from reserves and reserve funds" and "Net appropriations to reserves and reserve funds" page 33--(Ref. #88)**  
are amounts reflecting the net change between the opening and closing reserves and reserve fund balances. They are only shown on one side of the Consolidated Statement of Operations for any year. Any decrease will be on line 67 as an appropriation from (or transferred from) the reserves and reserve funds to the revenue fund or capital fund. Any increase will be shown on line

88 as an appropriation to the reserves and reserve funds from the revenue fund or capital fund.

68 "FUND BALANCES AT THE BEGINNING OF THE YEAR/"

89 FUND BALANCES AT THE END OF THE YEAR"

The opening and closing surpluses or deficits are shown here as well as the opening and closing balances of unexpended capital financing (or capital operations not yet financed). These will correspond to the same figures as are on the Balance Sheet.

For the Consolidated Statement of Operations there is also an option to include the opening and closing balances of reserves and reserve funds. If this reporting option is selected, there will be no net appropriations figure as above, since the change would be included in the balances.

69T **"Total financing available during the year"**

This total reflects the total of all of the above sources of financing. It will be equal to page 33--Ref.#90 "Total applications during the year."

This page has been left blank for any additional notes you might wish to make as you refer to the explanations.

Exhibit of.....TOWNSHIP OF ONTARIO  
CONSOLIDATED STATEMENT OF OPERATIONS  
For the year ended December 31, 1986

	Budget 1986 \$	Actual 1986 \$	Actual 1985 \$
<b>SOURCES OF FINANCING</b>			
50 <b>Taxation and user charges</b>			
51     Residential and farm taxation	1,019,250	1,052,319	956,001
52     Commercial, industrial and business taxation	169,518	175,113	164,817
53     Taxation from other governments	155,739	155,811	153,929
54     User charges	12,698	14,045	16,531
55 <b>Grants</b>			
56     Government of Canada	100,000	100,000	18,160
57     Province of Ontario	485,479	546,463	415,455
58     Other municipalities	--	4,063	4,063
59 <b>Other</b>			
60     Contributions from developers	173,500	165,000	4,000
61     Investment income	20,500	20,500	20,000
62     Sale of land	--	2,000	--
63     Other	66,100	78,448	50,568
64     Deduct: Amounts received or receivable for the County and school boards (note 2)	(983,700)	(1,005,025)	(913,968)
65     Proceeds from the issue of long term liabilities	10,000	10,000	7,900
66     Extraordinary gain			
67     Net appropriations from reserves and reserve funds			
68 <b>MUNICIPAL FUND BALANCES AT THE       BEGINNING OF THE YEAR (note 9)</b>			
To be used to offset (or to be recovered from) taxation or user charges	11,633	(3,162)	12,716
Capital operations not yet permanently financed	--	--	(45,000)
69T <b>Total financing available during       the year</b>	<u>1,240,717</u>	<u>1,315,575</u>	<u>865,172</u>

The accompanying notes are an integral part of this financial statement.

Applied to:

The exhibit is on page 33.

Generally speaking, moneys are applied to, or used for, either day-to-day (or current) operations and capital expenditures.

The statement of operations separates these two categories since for financial evaluation and planning purposes it is useful to know which items will occur every year, versus those items which are infrequent and long term such as the construction of a building.

70      Current Operations

Current operations are separated into expenditures by function or type of activity as follows:

71      "General government"

Council meetings, expenses relating to officers and departments involved in general administration, audit fees, bank charges and interest on temporary borrowings, cost of tax billings and collections and writeoffs and other expenditures which cannot be allocated to more specific functions.

72      "Protection to persons and property"

Expenditures relating to fire, police, conservation authority requisitions, building inspection, pest and animal control and other expenditures relating to persons and property such as emergencies and flood damage.

73      "Transportation services"

Repairs and maintenance of roads and sidewalks, transit operations, parking, street lighting, air transportation and other expenditures relating to transportation such as harbours marinas and airports.

74        **"Environmental services"**

Sanitary sewers, storm sewers, waterworks, garbage collection and disposal, pollution control and any other environmental-related expenditures.

75        **"Health services"**

Public health services such as health units, public health inspections and control, hospitals, ambulance services, cemeteries and any other health-related expenditures.

76        **"Social and family services"**

Assistance to indigents and incapacitated persons, homes for the aged and transit subsidies, children's aid societies, day nurseries and other such services of a social and family nature.

77        **"Recreation and cultural services"**

Parks and recreation, libraries, zoos, scholarships and student awards, art galleries and museums, historical boards and any other related cultural and recreational services.

78        **"Planning and development"**

Planning and zoning, development of land for commercial and industrial, residential, agriculture and reforestation purposes.

79        **"Other"**

Contributions to or debt charges paid on behalf of municipal hydro, gas and telephone utilities and any other expenditures which do not fit into one of the above categories.

81        **Capital**

Capital operations are sometimes separated by expenditure type, rather than by function, as indicated on the exhibit. These items are segregated as capital expenditures but are charged to operations in that year, regardless of how and when they were financed.

In summary, the equation for the statement of operations is:

Municipal Fund Balances at the beginning of the year

+

Sources of Financing

-

Applications of Financing

=

Municipal Fund Balances at the end of the year



This page has been left blank for any additional notes you might wish to make as you refer to the explanations.

Exhibit of..... **CONSOLIDATED STATEMENT OF OPERATIONS**  
For the year ended December 31, 1986

		Budget 1986 \$	Actual 1986 \$	Actual 1985 \$
	<b>APPLIED TO:</b>			
70	<b>Current operations (Notes 3, 11, 13)</b>			
71	General government	186,083	187,571	162,665
72	Protection to persons and property	78,302	79,842	62,576
73	Transportation services	321,568	355,535	201,581
74	Environmental services	61,329	57,819	53,254
75	Health services	1,000	327	2,723
76	Social and family services	1,000	1,000	1,000
77	Recreation and cultural services	16,060	42,720	110,228
78	Planning and development	30,853	30,205	50,272
79	Other	6,000	9,000	4,000
80T		<u>702,195</u>	<u>764,019</u>	<u>648,299</u>
81	<b>Capital</b>			
82	General government	3,000	2,389	1,135
83	Protection to persons and property	16,500	16,394	--
84	Transportation services	80,000	79,363	122,825
85	Recreation and cultural services	<u>400,000</u>	<u>399,754</u>	<u>66,075</u>
86T		<u>499,500</u>	<u>497,900</u>	<u>190,035</u>
87	<b>Extraordinary loss</b>	--	--	--
88	Net appropriations to reserves and reserve funds	30,500	27,500	30,000
89	<b>MUNICIPAL FUND BALANCES AT THE END OF THE YEAR (note 9)</b>			
	To be used to offset (or to be recovered from) taxation or user charges	8,522	5,317	(3,162)
	Unexpended capital financing	--	20,839	--
90T	<b>Total applications during the year</b>	<u>1,240,717</u>	<u>1,315,575</u>	<u>865,172</u>

The accompanying notes are an integral part of this financial statement.

## NOTES TO THE FINANCIAL STATEMENTS--SPECIFIC ITEMS

As previously mentioned, the Notes to the Financial Statements are an integral part of the financial statements. They are not meant to be a substitute for proper accounting treatment, but are included to inform the reader and to clarify items which are not self-explanatory in their dollar form or to provide more detail than is practical to show in the body of the financial statements.

The Municipal Financial Reporting Handbook requires certain notes to be presented and also gives a suggested wording for these required notes. The description of the notes and what they mean will be arranged in the order of these prescribed notes on the left side of the following pages. The actual wording of the notes is given on the right hand side of the following pages.

In some cases there will be additional notes which explain special circumstances affecting that individual municipality. These notes will explain the special circumstance and the related financial effect on the financial statements of the municipality.

## EXPLANATION OF EXHIBIT NOTES

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### Note 1 Accounting Policies

All municipalities must provide an "Accounting Policies" note which is usually the first note given. This note contains a preamble informing the reader of management's (treasurer and Council) responsibility for the preparation of the municipality's financial statements using the general accounting policies applicable to all Ontario municipalities. Because of the diverse backgrounds of both the readers and users of the municipal financial statements and the distinctive nature of municipalities, all sections of the accounting policies note must be provided whether or not the individual municipality has transactions in that year applicable to any individual part of this note. Conversely, where a policy should be applied and is not, such failure to comply, and the resulting impact on equity, should be reported.

The preamble also gives the reader assurance that where estimates are required, they have been made using careful judgment. See page 4 for a further discussion on the use of estimates.

#### (a) (i) Basis of Consolidation

This note indicates that the reserves, reserve funds, capital fund and revenue funds are consolidated. Consolidation accounting records entries to eliminate any double-counting of transactions, some of which are only transfers of funds rather like transferring from one pocket to another, thus the reference to the elimination of interfund and interentity assets and liabilities in this note.

The note also lists the boards, municipal enterprises and utilities which are run as separate divisions during the year for operational convenience and accountability but are consolidated at the end of the year, to be reported as one entity under the control of Council. This is similar to private sector practice whereby consolidations are also effected on the basis of control.

## EXHIBIT FINANCIAL STATEMENT NOTES

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### TOWNSHIP OF ONTARIO NOTES TO THE FINANCIAL STATEMENTS for the year ended December 31, 1986

#### 1. Accounting Policies

The consolidated financial statements of the Corporation (municipality) are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment.

#### (a) (i) Basis of Consolidation

These consolidated statements reflect the assets, liabilities, sources of financing and expenditures of the revenue fund, capital fund, reserve funds and reserves and include the activities of all committees of Council and the following boards, municipal enterprises and utilities which are under the control of Council:

Memorial Community Centre  
Ontario Community Park Board  
Ontario Centennial Library Board  
Greenwood Cemetery Board

All interfund assets and liabilities and sources of financing have been eliminated with the exception of loans or advances between reserve funds and any other fund of the municipality and the resulting interest income and expenditures.

## EXPLANATION OF EXHIBIT NOTES

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### (ii) Non-consolidated Entities

This note indicates those entities which are not consolidated, but are part of the municipality. Where entities are not consolidated, however, separate financial statements are required and are available at the municipal office.

### (iii) Accounting for Region (County) and School Boards Transactions

Since levies for region (county) and school boards can be shown either gross (included in taxation with a deduction for the amounts transferred) or net (taxation showing only municipality's share) this note emphasizes that regardless of the method of presentation the operations, assets and liabilities of these entities do not have an effect on the municipality's fund balances.

### (iv) Trust Funds

Trust funds are not owned by the municipality, but only administered by it on behalf of the Province, individuals, or other organizations and are therefore not consolidated.

## EXHIBIT FINANCIAL STATEMENT NOTES

---

### (ii) Non-consolidated Entities

The following local boards, joint local boards, municipal enterprises and utilities are not consolidated.

Police Village of Franklin  
Franklin Hydro-Electric Commission  
The Ontario-Jefferson Joint Community Centre  
The Ontario-Jefferson Home for the Aged

### (iii) Accounting for Region (County) and School Board Transactions

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards, and the County of Jefferson are not reflected in the municipal fund balances of these financial statements. Overlevies (underlevies) are reported on the Consolidated Balance Sheet as "other current liabilities" ("other current assets").

### (iv) Trust Funds

Trust funds and their related operations administered by the Municipality are not consolidated, but are reported separately on the "Trust Funds Statement of Continuity and Balance Sheet."

## EXPLANATION OF EXHIBIT NOTES

---

**(b) Basis of Accounting**

(i) There are two options in reporting sources of financing and expenditures:

a) **accrual** - principal charges on long term liabilities are charged against operations when paid; all other revenues and expenditures including interest are reported on the accrual basis.

b) **nonaccrual** - principal and interest charges on long term liabilities are charged against operations when paid; all other revenues and expenditures are reported on the accrual basis.

(ii) This note explains the accrual basis of accounting, that is, reporting revenues as they are available and measurable, and expenditures as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(iii) The note on **fixed assets** explains that fixed assets are not recorded for municipal purposes but are reported in the year of acquisition as an expenditure on the Consolidated Statement of Operations. Where the assets have been financed by the issue of long term indebtedness, the reporting option of accrual or nonaccrual (stated in 1(b)(i)) applies as does Note 12 if the option to not accrue (1(b)(i)b)) is selected.

**(iv) "Capital Outlay to be Recovered in Future Years"**

refers to the long term debt still outstanding and reported on the Consolidated Balance Sheet.

## EXHIBIT FINANCIAL STATEMENT NOTES

---

### (b) Basis of Accounting

(i) Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal and interest charges on long term liabilities which are charged against operations in the periods in which they are paid.

(ii) The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

### (iii) Fixed Assets

The historical cost and accumulated depreciation for fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Consolidated Statement of Operations in the year of acquisition.

### (iv) Capital Outlay to be Recovered in Future Years

"Capital outlay to be recovered in future years," which represents the outstanding principal portion of unmatured long term liabilities for municipal expenditures or capital funds transferred to other organizations, is reported on the "Consolidated Balance Sheet."

## EXPLANATION OF EXHIBIT NOTES

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### **Note 2      Operations of School Boards and the Region (County)**

This note discloses the amount of taxes levied and other sources of financing and the requisitions for the school boards and region (county) and is required regardless of whether reporting gross or net.

### **Note 3      Contributions to Unconsolidated Joint Boards**

Further to Note 1(a)(ii) this note discloses the financial contributions and/or commitment of the municipality to the joint board.

EXHIBIT FINANCIAL STATEMENT NOTES

---

2. **Operations of School Boards and the County of Jefferson**  
Further to note 1(a)(iii), the taxation, other revenues, expenditures and overlevies (underlevies) of the school boards and the County of Jefferson are comprised of the following:

	<u>School Boards</u>	<u>County</u>
Taxation and user charges	\$819,102	\$185,923
Grants	--	58,145
Other revenue	--	<u>1,000</u>
	<u>819,102</u>	<u>245,068</u>
Requisitions paid	<u>819,085</u>	<u>234,766</u>
Overlevies (underlevies) for the year	17	10,302
Overlevies (underlevies) at the beginning of the year	<u>--</u>	<u>16,774</u>
Overlevies (underlevies) at the end of the year	<u>\$ 17</u>	<u>\$ 27,076</u>

3. **Contributions to Unconsolidated Joint Boards**

Further to note 1(a)(ii), the following contributions were made by the municipality to these boards:

	<u>1986</u>	<u>1985</u>
The Ontario-Jefferson Joint Community Centre	\$ 5,000	\$ 4,000

## EXPLANATION OF EXHIBIT NOTES

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### **Note 4      Trust Funds**

This note discloses the amount of trust funds under the administration of the municipality.

### **Note 5      Investments**

The market value of investments held is disclosed in this note.

## EXHIBIT FINANCIAL STATEMENT NOTES

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The Ontario-Jefferson Home for the Aged	<u>1,000</u> <u>\$ 6,000</u>	<u>1,000</u> <u>\$ 5,000</u>
--	---------------------------------	---------------------------------

The Municipality is contingently liable for its share, which is approximately 20% and 10% respectively of the accumulated deficits to the end of the year for these boards:

	<u>1986</u>	<u>1985</u>
The Ontario-Jefferson Joint Community Centre	\$ 9,000	\$ 2,000
The Ontario-Jefferson Home for the Aged	<u>5,000</u> <u>\$14,000</u>	<u>--</u> <u>\$ 2,000</u>

The Municipality is also contingently liable for its share, which is approximately 20% and 10% respectively of the long term liabilities issued by other municipalities for these boards.

	<u>1986</u>	<u>1985</u>
The Ontario-Jefferson Joint Community Centre	\$30,000	\$15,000
The Ontario-Jefferson Home for the Aged	<u>--</u> <u>\$30,000</u>	<u>10,000</u> <u>\$25,000</u>

#### 4. Trust Funds

Trust funds administered by the municipality amounting to \$80,450 (1985 \$78,300) have not been included in the "Consolidated Balance Sheet" nor have their operations been included in the "Consolidated Statement of Operations."

#### 5. Investments

The total of investments of \$200,500 (1985 \$219,000) recorded on the "Consolidated Balance Sheet" at cost, have a market value of \$190,500 (1985 \$205,000) as at the end of the year.

## EXPLANATION OF EXHIBIT NOTES

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### **Note 6 Liability for Past Service Provision of Pension Agreements**

This note indicates the amount of the liability and whether or not the municipality has recorded any of this liability in the accounts. This note is only provided where it applies.

### **Note 7 Liability for Vested Sick Leave Benefits**

Same as in Note 6.

### **Note 8 Net Long Term Liabilities**

This note provides a description and analysis of the long term liabilities reported on the Consolidated Balance Sheet.

(a) is the breakdown of the long-term liabilities incurred by the municipality and shows the reduction for amounts assumed, that is paid, by other entities (or individuals in the case of tile drainage loans) or the additions for the assumption (obligation to pay) by the municipality. The net amount shown in the total line is the amount which is shown on the balance sheet and is the amount for which the municipality is directly responsible for the payment of principal and interest. The annual payments of these liabilities are included in the tax levy as expenditures for the year.

EXHIBIT FINANCIAL STATEMENT NOTES

6. Liability for Past Service Provision of Pension Agreements

Under the past service provision of pension agreements, the municipality is obligated at December 31, 1986 for an amount of approximately \$20,000 (1985 \$18,000) as established for the plans. No provision has been made for this liability.

This liability will be funded by annual installments of \$4,000 each for the next five years.

7. Liability for Vested Sick Leave Benefits

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the municipality's employment.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to \$47,500 (1985 \$45,000) at the end of the year. An amount of \$10,000 (1985 \$7,500) has been provided for this past service liability and is reported on the "Consolidated Balance Sheet." An amount of \$2,500 (1985 \$2,000) has been provided for the current year and is reported on the "Consolidated Statement of Operations." The balance of this liability will be funded by annual installments of \$5,000 each for the next ten years.

8. Net Long Term Liabilities	<u>1986</u>	<u>1985</u>
(a) The balance of net long term liabilities reported on the "Consolidated Balance Sheet" is made up of the following:		
.Total long term liabilities incurred by the municipality including those incurred on behalf of school boards, other municipalities and municipal enterprises and outstanding at the end of the year amount to	\$665,204	\$720,030
.In addition, the municipality has assumed responsibility for the payment of principal and interest		

## EXPLANATION EXHIBIT NOTES

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(b) discloses the amounts to be paid in five-year intervals.

# EXHIBIT FINANCIAL STATEMENT NOTES

charges on certain long term liabilities issued by other municipalities. At the end of the year, the outstanding principal amount of this liability is	10,000	12,000
.Of the long term liabilities shown above, the responsibility for payment of principal and interest charges has been assumed by unconsolidated local boards, municipal enterprises and utilities, and other municipalities. At the end of the year, the outstanding principal amount of this liability is	(540,000)	(573,300)
.Of the long term liabilities shown above, the responsibility for payment of principal and interest charges for tile drainage and shore-line property assistance loans has been assumed by individuals. At the end of the year, the outstanding principal amount of this liability is	( 22,200)	( 25,600)
.The balance in the Ministry of the Environment Debt Retirement Fund which has been accumulated to the end of the year to retire the outstanding long term liabilities included above, amount to	<u>(18,500)</u>	<u>( 16,500)</u>
.Net long term liabilities at the end of the year	<u>\$ 94,604</u>	<u>\$116,630</u>

(b) Of the net long term liabilities reported in (a) of this note, \$40,000 in principal payments are payable from 1987 to 1991, \$44,604 from 1992 to 1996, and \$10,000 thereafter and are summarized as follows:

	1987 to <u>1991</u>	1992 to <u>1996</u>	1997 and <u>thereafter</u>
from general municipal revenues	\$23,100	\$24,000	\$ 6,000

## EXPLANATION EXHIBIT NOTES

---

(c) indicates the existence, if any, of any foreign long term debt and what the current value of that debt is.

(d) Since approval of the Ontario Municipal Board is required for long term liabilities, this section of the note discloses that the statutory requirement for this approval has or has not been met. The provision of this section is optional.

(e) is a reference to long term debt assumed by others and states that because the debt has been issued in the name of the municipality, in the case of default, the municipality is contingently liable for this debt.

### **Note 9 Municipal Fund Balances at the end of the year**

This note simply provides an expanded description of the surpluses (deficits) of the municipality including how the money is to be applied or raised. It also provides disclosure as to the compliance of the municipality to the statutory requirement for obtaining approval of the Ontario Municipal Board for any pending issue(s) of long term liabilities and any commitments to be financed beyond the term of the present Council.

## EXHIBIT FINANCIAL STATEMENT NOTES

from benefitting landowners	3,900	4,200	1,000
from consolidated municipal enterprises	<u>13,000</u>	<u>15,404</u>	<u>3,000</u>
	<u>\$40,000</u>	<u>\$44,604</u>	<u>\$10,000</u>

(c) Included in "Net long term liabilities" on the "Consolidated Balance Sheet" is an amount of \$20,000 (1985 \$22,000) payable in United States currency which was converted into Canadian dollars at the rate of exchange prevailing when the liability was incurred. If the liability is converted into Canadian dollars at the exchange rate prevailing at December 31, 1986, the liability would be increased by \$1,000 (1985 \$1,200).

(d) Approval of the Ontario Municipal Board has been obtained for the long term liabilities in (a) issued in the name of the Municipality.

(e) The Municipality is contingently liable for long term liabilities with respect to tile drainage and shoreline property assistance loans, and for those for which the responsibility for the payment of principal and interest has been assumed by other municipalities, school boards, and unconsolidated local boards, municipal enterprises, and utilities. The total amount outstanding as at December 31, 1986 is \$562,100 (1985 \$598,900) and is not recorded on the "Consolidated Balance Sheet".

### 9. Municipal Fund Balances at the end of the year

(a) The total on the "Consolidated Statement of Operations" of municipal fund balances of \$26,156 (1985 deficit of \$3,162) at the end of the year is comprised of the following:

	<u>1986</u>	<u>1985</u>
To be used to offset (or to be recovered from) taxation or user charges		
.for general reduction (increase) of taxation	\$ 8,270	\$(14,490)
.for general reduction (increase) of user charges	(9,250)	12,290
.for benefitting landowners related to special charges and special areas	<u>6,297</u>	<u>(962)</u>
	<u>5,317</u>	<u>(3,162)</u>

EXPLANATION EXHIBIT NOTES

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**Note 10   Reserves and Reserve Funds**

This note is an expanded description of the reserve and reserve fund balances of the municipality distinguishing between discretionary and obligatory reserve funds.

## EXHIBIT FINANCIAL STATEMENT NOTES

Unexpended capital financing		
.acquisition of fixed assets to be recovered through taxation or user charges	(1,839)	(6,252)
.acquisition of fixed assets to be financed from the proceeds of long term liabilities	(5,000)	--
.acquisition of fixed assets to be recovered through reserves and reserve funds	(4,000)	(2,000)
.funds available for the completion of current projects	<u>31,678</u>	<u>8,252</u>
	<u>20,839</u>	<u>--</u>
	<u>\$26,156</u>	<u>\$ (3,162)</u>

(b) Approval of the Ontario Municipal Board has been obtained for the pending issue of long term liabilities and for those commitments to be financed from revenues beyond the term of Council.

### 10. Reserves and Reserve Funds

The total balances on the "Consolidated Balance Sheet" of reserves and reserve funds of \$60,713 (1985 \$33,213) and \$254,975 (1985 \$254,975) respectively is made up of the following:

	<u>1986</u>	<u>1985</u>
Reserves set aside for specific purpose by Council		
.for recreation facilities	\$ 5,213	\$ 5,213
.for acquisition of fixed assets	33,000	20,500
.for working capital	12,500	--
.for vested sick leave benefits	<u>10,000</u>	<u>7,500</u>
	<u>60,713</u>	<u>33,213</u>
Reserve funds set aside for specific purpose by Council		
.for acquisition of fixed assets	60,000	60,000
Reserve funds set aside for specific purpose by legislation, regulation or agreement	<u>194,975</u>	<u>194,975</u>
Total reserve funds	<u>\$ 254,975</u>	<u>\$254,975</u>

## EXPLANATION EXHIBIT NOTES

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### **Note 11 Charges for Net Long Term Liabilities**

This note discloses the amount of principal and interest paid during the year on long term debt which is included in the Consolidated Statement of Operations.

### **Note 12 Nonaccrual of Interest on Long Term Liabilities**

If the reporting option of nonaccrual of interest on long term liabilities (Note 1(b)(i)b)) has been selected, then the amount of the nonaccrual will be disclosed or the comment that the amount of the nonaccrual is not significant will be made.

### **Note 13 Contractual Obligation**

This note gives details of contractual obligations for future operating costs under any legal agreements.

## EXHIBIT FINANCIAL STATEMENT NOTES

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### 11. Charges for Net Long Term Liabilities

Total charges for the year for net long term liabilities which are reported on the "Consolidated Statement of Operations" are as follows:

	<u>1986</u>	<u>1985</u>
.Principal payments including contributions to sinking funds and to the Ministry of the Environment Debt Retirement Fund	\$32,026	\$21,693
.Interest	<u>16,917</u>	<u>17,957</u>
	<u>\$48,943</u>	<u>\$39,650</u>

The charges for long term liabilities assumed by the non-consolidated entities are not reflected in these statements.

### 12. Nonaccrual of Interest on Long Term Liabilities

No provision has been made in these financial statements for the accrual of interest on the net long term liabilities. Had this provision been made the municipal fund balances as at December 31, 1986 would have been decreased by \$2,000 (1985 \$2,600).

### 13. Contractual Obligations

By agreement the municipality is leasing garage space for a ten year period from April 15, 1980 to April 15, 1990. The base rent per year is \$1,800 with an escalator clause to compensate for increased maintenance and utility costs over the base year of 1980.

## SEPARATE FINANCIAL STATEMENTS

Separate financial statements are required for all entities of the municipality which have not been consolidated. These will be listed in the Notes to the Financial Statements under "Accounting Policies - Basis of Consolidation - Non-consolidated Entities".

There is no requirement for these financial statements to be prepared on the same basis using the same accounting principles as the consolidated statements described in this bulletin, however, as a minimum, an accounting policy note describing the basis of accounting must be included.

Hydro-electric utilities' financial statements are prepared using the format and generally accepted accounting principles for hydro-electric utilities as prescribed by Ontario Hydro.

Not all local boards are required to have separate audited financial statements, however there are statutory requirements for the following:

- Parking Authorities
- Business Improvement Areas
- Library Boards
- Hydro Commissions
- Public Utility Commissions
- Police Villages
- Unconsolidated Joint Boards

These are available at the municipal office.

## APPENDIX A

### AUDITOR'S REPORT

To the Members of Council, Inhabitants and  
Ratepayers of the Corporation  
of the \_\_\_\_\_ of \_\_\_\_\_

I have examined the consolidated balance sheet of the Corporation of the \_\_\_\_\_ of \_\_\_\_\_ as at December 31, 1986 and the consolidated statement of operations for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Corporation of the \_\_\_\_\_ of \_\_\_\_\_ as at December 31, 1986 and the results of its operations for the year then ended in accordance with the accounting principles prescribed for Ontario municipalities applied on a basis consistent with that of the preceding year.

Date

Chartered Accountant

## APPENDIX B

## GLOSSARY OF TERMS

### **Accrual**

The basis of accounting under which transactions are recognized when they occur, regardless of the timing of the related cash flows.

### **Assets**

Resources owned or held by a government which have a monetary value.

### **Audit**

An exploratory, critical review by an independent auditor of the underlying internal controls and accounting records of the municipality, and of its local boards, municipal enterprises, utilities and funds which are under the control of the Council. The purpose of the audit is to permit the auditor to express his opinion as to the fair presentation of the municipality's financial statements.

### **Audit Report**

The municipal auditor's annual written statement attesting to the work he has done and his expression of belief or opinion as to the fairness of the financial statements.

### **Balance Sheet**

The financial statement which discloses what the municipality owns (assets), what it owes (liabilities) and its equity (or the difference between assets and liabilities) at a specified date in conformity with accounting principles prescribed in the Municipal Financial Reporting Handbook.

### **Budget**

#### Current or revenue fund

A financial plan which serves as a pattern for and a control over the municipality's estimated current revenues and expenditures. The Council of each municipality sets the amount to be collected in taxes each year based on its budget or revenue fund estimates.

#### Capital expenditures

A financial plan which serves as a control over expenditures for capital projects and over the sources of funding for each project during each fiscal year. Some municipalities prepare five year capital forecasts to identify long term needs.

**Capital Expenditure**

Capital expenditures are those expenditures for the purchase of assets which will benefit future years. The method used to pay for asset acquisitions or improvements does not determine the nature of the expenditure; many capital expenditures are paid for out of current revenue.

**Capital Fund**

The sums of money raised by taxation or otherwise appropriated and set aside for the purpose of paying for such capital projects as are approved from time to time by the Council.

**Consolidated Financial Statements**

When financial statements are consolidated, eliminating entries are recorded to avoid double-counting revenue and expense items. The result is to show one combined entity under the control of Council. Certain entities such as municipally owned hydro-electric enterprises are not consolidated since they follow accounting principles prescribed by Ontario Hydro which are different than those prescribed for Ontario municipalities.

**Contingent Liability**

A remote but potential obligation, relating to a past transaction or other event, which may become real in the future. The liability is thought to be possible but not probable. For example, an unsettled lawsuit.

**Debenture**

A long term borrowing document issued by a municipality, with the approval of the Ontario Municipal Board, which does not have specific assets pledged as security. The general credit of the municipality is relied upon for the payment of principal and interest.

**Deficit**

The amount by which the expenditures of a municipal fund, local board or municipal enterprise exceed the revenue of that fund at the end of a fiscal year.

**Entity**

A unit which is considered to be an operating unit by itself.

**Equity**

Assets less liabilities equals equity or fund balances at the end of the year.

**Estimates**

See Budget

**Expenditure**

An expenditure is a decrease in financial resources.

**Expense**

An expense is an allocation of costs regardless of the timing of the related expenditure.

**Financial Report**

The financial statements of the municipality along with any other statements, schedules, charts, graphs etc. which the Council considers useful in understanding the financial position and operations for the year.

**Financial Statements**

A Balance Sheet, Statement of Operations and Notes to the Financial Statements.

**Fiscal Period**

Any period at the end of which a municipality determines its financial position and the results of its operations. This is normally a twelve-month period and for Ontario municipalities, it is legislated for December 31.

**Fund**

A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and changes in these assets and liabilities.

**Joint Local Board**

A board which has been set up for a specific purpose and which belongs to two or more municipalities, usually under a specific agreement as to share of costs and control of the board. e.g. fire board

**Local Board**

As defined in the Municipal Affairs Act, a local board is "...school board, public utility commission, transportation commission, public library board, board of park management, local board of health, board of commissioners of police, planning board, or any other board, commission, committee, body or local authority established or exercising any power or authority under any general or special Act with respect to any of the affairs or purposes, including school purposes, or a municipality or of two or more municipalities or parts thereof."

### **Municipal Enterprise**

A municipal enterprise is an entity of a municipality which resembles a commercial enterprise in its operations. User fees will be charged sufficient to cover the entity's own operating costs. e.g. hydro, water, transportation etc.

### **Municipal Financial Reporting Handbook**

The Municipal Financial Reporting Handbook is a reference manual published by the Ministry of Municipal Affairs. The handbook sets out accounting principles and standards of financial disclosure which have been developed for use by Ontario municipalities and their local boards in the preparation of their annual, audited, consolidated financial statements.

### **Notes to the Financial Statements**

Notes to the financial statements further explain items in the financial statements. Such notes are an integral part of the financial statements. In Ontario, municipalities are required to include a number of specific notes: see Section 3004 of the Municipal Financial Reporting Handbook.

### **Quantitative**

Quantitative refers to the fact that the operations of the municipality are shown in dollar terms.

### **Reserve Funds**

#### Discretionary

An amount of money appropriated and set aside for a specific purpose, but which, at the discretion of Council, may be used for any other legal purpose. Reserve fund money must be set aside in a special deposit account separate from all other municipal accounts. The municipality may borrow temporarily from discretionary reserve funds but must pay interest to the fund at a rate which approximates the rate which the fund would earn if otherwise safely invested on a short term basis.

#### Obligatory

Obligatory reserve funds are similar to discretionary reserve funds. Two basic differences are that the funds are 1) set aside for a specified purpose and ordinarily may not be used for another purpose, and 2) the funds are not appropriated by the Council but are received by the municipality from an outside source. Such funds are required by statute to be set aside in a special deposit account separate from all other accounts of the municipality.

### **Reserves**

An appropriated amount of money which may be used for any legal purpose as may be decided by the municipal Council. Reserve money, unlike reserve fund moneys, is not required to be set aside in a special deposit account.

### **Revenue Fund**

The Revenue Fund is sometimes referred to as the current or operating fund of the municipality. It is a fund, with its own set of accounts, which is used to record the day to day operating revenues and expenditures for the current fiscal year.

### **Surplus**

The amount by which the revenue of a municipal fund exceeds the expenditures of that fund at the end of a fiscal year. Any combined net surplus of all of the municipality's consolidated operations becomes available for a reduction in taxation or user charges in the next year.

### **Trust Fund**

A sum of money held by a municipality under the terms of a trust agreement. An example is money paid in trust to a municipality by the Province under the Ontario Home Renewal Program (OHRP) whereby the municipality agrees to administer the program and be custodian of the trust funds. Trust funds must be kept separate from all other municipal funds. There are statutory limitations on the investment of trust funds.

### **Trustee Act**

The Trustee Act (Revised Statutes of Ontario), among other things, sets out the securities a trustee may invest in on account of a trust in his care. Municipalities are allowed, by legislation, to make stipulated investments by reference to the Trustee Act.

### **Unapplied Capital Receipts**

Money is sometimes received by a municipality in advance of the time when it is needed to pay for a capital project in progress. Such money is classified as "Unapplied Capital Receipts" until such time as the money is paid out for the project or, if not required is appropriated for some other purpose.

### **Unexpended Capital Financing**

Where money has been received which is earmarked for a specific project but not yet spent, then it can be considered to have been applied or specified although the actual moneys have not yet been disbursed.

**Unfinanced Capital Outlay**

That portion of the cost of a capital project or expenditure for which permanent financing has not yet been received.

**User Charges**

The imposition of charges for the use of municipal facilities. For example: rental charges made for the use of an arena or charges for water or charges for the use of library facilities or programs.



For more information, write or call any of the field offices of the Municipal Operations Division. They are located at these addresses.

**CAMBRIDGE**

150 Main Street  
Cambridge (Ontario)  
N1R 6P9  
(519) 622-1500

**GUELPH**

147 Wyndham St. N.  
Guelph (Ontario)  
N1H 4E9  
(519) 836-2531

**LONDON**

495 Richmond St.  
London (Ontario)  
N6A 5A9  
(519) 438-7255

**NORTH BAY**

347 Sherbrooke St.  
North Bay (Ontario)  
P1B 2C1  
(705) 476-4300

**ORILLIA**

15B Matchedash St. N.  
Orillia (Ontario)  
L3V 4T4  
(705) 325-6144

**TORONTO**

11th Floor  
777 Bay Street  
Toronto (Ontario)  
M5G 2E5  
(416) 585-7205

**OSHAWA**

74 Simcoe St. S.  
Oshawa (Ontario)  
L1H 4G6  
(416) 571-1515

**KINGSTON**

1055 Princess St.  
Kingston (Ontario)  
K7L 5T3  
(613) 545-4310

**OTTAWA**

244 Rideau St.  
Ottawa (Ontario)  
K1N 5Y3  
(613) 566-3711

**SUDBURY**

430 Notre-Dame Avenue  
2nd Floor  
Sudbury (Ontario)  
P3E 5K7  
(705) 675-4343

**THUNDER BAY**

435 James St. S.  
C.P. 5000  
Thunder Bay (Ontario)  
P7C 5G6  
(807) 475-1621

Any questions or comments regarding the contents of this publication may be addressed to the Ministry at the above Toronto address and telephone number.

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